RISK DIVERSIFICATION IN THE AGRICULTURAL SECTOR IN BULGARIA

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Abstract
The Bulgarian and Romanian European Union membership coincides with the Common Agricultural Policy (CAP) Reform. Applied till the 80s of the 20th century, the system of European subsidies which aimed at developing a functioning agricultural sector led to constant surplus of basic agricultural goods with high budget prices. During the 90s production quotas (e.g. the milk quotas of 1983) were introduced an emphasis was put on ecologically clean agricultural production. The CAP reform of 2003 reorganized the European subsidies in accordance with demand and stimulated farmers to produce what the market needed. Direct subsidies changed from payments based on territory to payments for farms. In order to cut surplus, the EU introduced an intervention system; fix quotas for the production of milk and sanctions for breaking them; restrictions on the export subsidies and the amount of cultivated land/number of bred animals for which farmers can receive subsidies.
Bulgarian and Romanian farmers receive direct payments which maintain their incomes stable but lower compared to these of their European counterparts. At the same time they have to meet the same requirements concerning environment preservation, food safety, and humane treatment of animals (a requirement for "cross compliance"). These factors together with the heavy dependence of the agricultural sector on climate make the issue of researching the possibilities for minimizing investment risks through product diversification extremely significant.
The main aim of this article is to identify the risks in the agricultural sector and assess the priority usage of various forms of diversification as an instrument for controlling risks. In addition, the article outlines / studies the possibilities for adding value to the agricultural sector by diversification of products and activities.
The article is written as follows: M. Nikolova – chapter 2; M Linkova – chapter 1; abstract, introduction and conclusion joint action.

Keywords: sustainable agriculture, entrepreneurial solutions, risk, diversification, nontraditional activities

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Introduction

Subject of the study is diversification as an instrument for risk minimization and stimulation of the agricultural sector.

Object of the study are the farmers in the agricultural regions.

The main *research argumentation* of the study is that the application of various forms of diversification can minimize risk and secure the sustainable development of the agricultural sector and regions.

The conclusions done in the study are based on scientific publications, legal documents and research of the Central Balkan and Western Rhodopi regions done during the period May - September 2009. The used data was collected through administering interviews and questionnaires. The representative sample includes respondents involved in agricultural and non-agricultural activities in the agricultural regions; respondents from the local authorities and the State Fund Agriculture.

The tasks of the study are:

- Assessment of the sector specific risk and systematization of entrepreneurial solutions according to risk situation;
- Possibilities for risk avoidance and minimization and their application in the agricultural sector;
- Possibilities for diversification in the agricultural sector and the agricultural regions.
- Examples of good practices for product and activity diversification.
- Competitive advantages and sustainable development of the agricultural regions.

1. Risk and diversification in the agricultural sector[1]

Because of the specific characteristic of this sector, the investment risk in agriculture is considerable. It is shared among the investor and the suppliers and the financing institutions. Therefore, it must be diversified among all interested parties who are involved in the investment or the investment portfolio.

Risk is an indicator for the possibility of loss or the variability of a specific indicator (the positive or negative deviation of its factual value compared to its forecast value). For example, a firm from the agricultural sector which has a higher variability of its business specific indicators compared to their average past values is characterized by a higher investment risk. In contrast, companies with stable financial indicators are characterized by lower investment risk.

Investment risk depends on two groups of factors:

- general economic or market conditions which define the so called systematic risk;
- specific characteristics of the business and firm policy (the quality of the management) which determine the so-called specific risk.

[1] The terms agricultural sector and agriculture are used synonymously in the article.

Within the first group of factors of key importance are the interest rates, price dynamics, market conditions, exchange rates, basic interest rates, tax burden, etc. Actually, these factors can be controlled by entrepreneurs and are considered as an external environment and usually, the level of systematic risk is determined by international rating companies.

The specific aspects of the business and the company policy (the quality of the management) in the agricultural sector, which determine the so-called specific risk, can be generally characterized in the following manner:

- *high percentage of fixed costs* (for land, buildings, machinery, equipment, animals capable of reproduction, perennial plants)

It is known that the higher fixed costs worsen the risk situation of the firm. To compensate their negative influence firms can increase their product turnover which will result in reduction of the relative share of higher fixed costs in a single unit of production.

Operating risk in agriculture depends not only on higher fixed costs (compared to other sectors of the economy) but also on :

- *the limited possibilities for their spreading* in the increasing number of sales

The limitations are connected with:

- the strong dependability of the agricultural sector on climate factors;
- the superfluous capacity – overproduction and respectively shortage of agricultural products;
- the instability of the agricultural product markets;

- *the production factors used in agriculture* are *highly specific* and cannot be used outside the sector.

The theory and practice offers various methods for risk avoidance which can be classified in three groups:

- risk spreading among the subcontractors (risk insurance);
- risk spreading in time (hedging);
- risk spreading among the investment beneficiaries – risk spreading among the objects of investment (diversification).

Every day farmers face the challenges of the changing circumstance which involve prices, yields, and other factors. The main sources of risk are as follows:

- *Production risk* or the risk connected with harvesting is most often connected with climate conditions such as heavy rains or droughts, extreme temperatures, hail, insects and diseases. Machinery can play an important role in minimizing the production risk in the agricultural sector. The introduction of new plants and production techniques create potential for improved effectiveness. Contrary to this, with certain practices there is a threat to stop using (for example, machines because of lack of spare parts). This creates a different kind of risk.

- Price or marketing risk reveals the risk of changes in the prices of used resources or the prices of sold products. Animal breeding usually requires continuous investments in fodder and equipment which may not generate incomes for month. Since markets are very complicated and involve both domestic and international factors, the incomes of the farmers can be influenced considerably by events that take place in remote parts of the world.

• *Institutional risk* results from changes in the policy and provisions connected with the agricultural sector. This risk is usually revealed through imposing unexpected production restrictions and changing the prices of used resources and finished products. For example, the changes in the national and European provisions for the use of pesticides can change the production costs or limit the exports and thus influence prices. Other institutional risks can occur as a result in changes of the subsidies for certain products; restrictions concerning the use and cultivation of land; and changes in the tax policy concerning incomes/profits.

• *Financial risk* is a result of the way in which the farm acquires and finances its capital. Farmers can face difficulties concerning cash flows even when the farm is 100% financed with own capital if they do not have enough funds to pay off creditors. In this way it is possible for them to lose their own capital and its net value.

For farmers risk management requires assessment of the ratio between risk changes, expected profits, entrepreneurial choice and other variables. The basic indicators of risk, their advisable levels and the possible solutions are outlined in table no. 1.

Table no. 1 Entrepreneurial decisions according to the type of risk

Indicator	Definition	Advisable levels	Possible solutions
Level of long-term indebtedness	Indicates how much of the firm's assets are financed by long-term credits	< 50%	• to pay off credits; • to issue new equities; • to convert indebtedness into equities • to reinvest profits;
Financial autonomy	The relative share of own capital compared to the total amount of permanent capital	As close as possible to one	to use mainly own capital instead of credits
Financial leverage	The ratio of the amounts from long-term credits to the amounts of own capital	According to the company's financial policy and the leverage effect	• to pay off credits; • to issue new equities; • to convert indebtedness into equities • to reinvest profits;
Coefficient of interest payments coverage	How low incomes can go down without causing financial difficulties		• Fewer credits/loans; • Improvement of company activities to increase operating profits
General liquidity	The company's ability to meet short-term liabilities using current assets	over 1- 2,5	to increase the level of current assets
Quick liquidity	The company's ability to meet short-term liabilities using assets payable to it	about 0,8	to increase the reversibility of reserves
Immediate liquidity	The company's ability to meet short-term liabilities using available cash flows	about 0,2	to change the payments schedule

Source: Adamov, V., Holst, J. and Zahariev, A., 2002. *Financial analysis*. Veliko Tarnovo: Abagar; Adamov, V., 2001. *Company Finances*. Veliko Tarnovo: Abagar; Patev, P., Angelov A. and Kanaryan, N., 2002. *Bank Risk Management*. Veliko Tarnovo: Abagar; Kamenov, K. Pamukchiev, M. and Dilkov, T., 2000. *Risk Management*. Svishtov: "Tsenov" Publishing House.

Risk insurance is the oldest and most widely used instrument for avoiding risk. Its disadvantage is the fact that individuals can usually insure against objective risks – fire, hail storms, insect plagues, etc. Farmers regularly buy insurance policies covering their future yields, property, health conditions, machines and responsibility to minimize risk. Farmers can also receive compensations for most of the production risks connected with unfavourable climate conditions and other natural disasters. In addition, they can apply for various forms of subsidies given by the respective national agencies to cover losses caused by low market prices or oversupply of production according to the EU legislation concerning the market organization for certain agricultural products.

To insure against subjective risks the modern practice offers the hedging instruments (that is to spread risks over time). Hedging is based on the notion that one and the same asset changes its value over time and in different markets. Using this technique the entrepreneur can avoid losses caused by unplanned deviations of the return-on-investment norm by undertaking an investment deal on the spot market and at the same time realise another deal on the futures market.

One possible solution is to use insurance options against probable changes in the asset price. In the investment projects, farmers can use options for delay, suspension, expansion or downsizing of activities, as well as prolongation of deadlines. However, there are certain limitations when hedging is used. On one hand these limitations are connected with the way stock markets function. On the other hand, the investment period must coincide with the standard future periods, which is not always possible in the agricultural sector.

Diversification is the most widely used instrument for avoiding risks in the investment process, which is based on spreading the risks among more objects. The minimization of risk here is achieved by spreading the riches of the investor among different investment bearers on the basis of the ratio 'risk and profitability'. The motivation for diversification is based on the principle that when a given activity has low revenues, other activities might be profit-making. Agricultural economy which carries out several production activities considerably lowers the possibility of the local natural disasters to have a negative impact on all activities simultaneously, for example: managing lands in different regions; growing of several different crops; running of plant-growing and stock-breeding at the same time, etc. The spreading of risk in agriculture can be carried out by diversification in the branch itself, as well as outside of it by diversifying the agricultural activities. (Figure no. 1)

The term 'diversification' is used for: «naive diversification» - a strategy when the investor invests funds in various assets; diversification of activities and investments; allocation of credits and deposits among a wide range of clients with view to spread the risk among the subjects; diversification of products; diversification of production, etc. Diversification could be viewed on the one hand as an indicator of the level of adaptation and flexibility of agricultural economies in regard to the changes in the economic environment, the unstable meteorological conditions, the fluctuations of prices or diseases of cattle, and on the other hand as a change in the organization of the agricultural economy itself – a change in the agricultural production or in the economic activity.

Diversification in agriculture includes the production, processing and trade with food products (agricultural stores; cheese factories, slaughterhouses, development of wine tourism, fish economy, etc.). *The diversification outside the agriculture* encompasses various activities such as: offering of motor sport; hunting, fishing; construction of natural

eco-paths; development of rural and agricultural tourism; organization of conferences, festivals, presentations and other public cultural activities, etc.

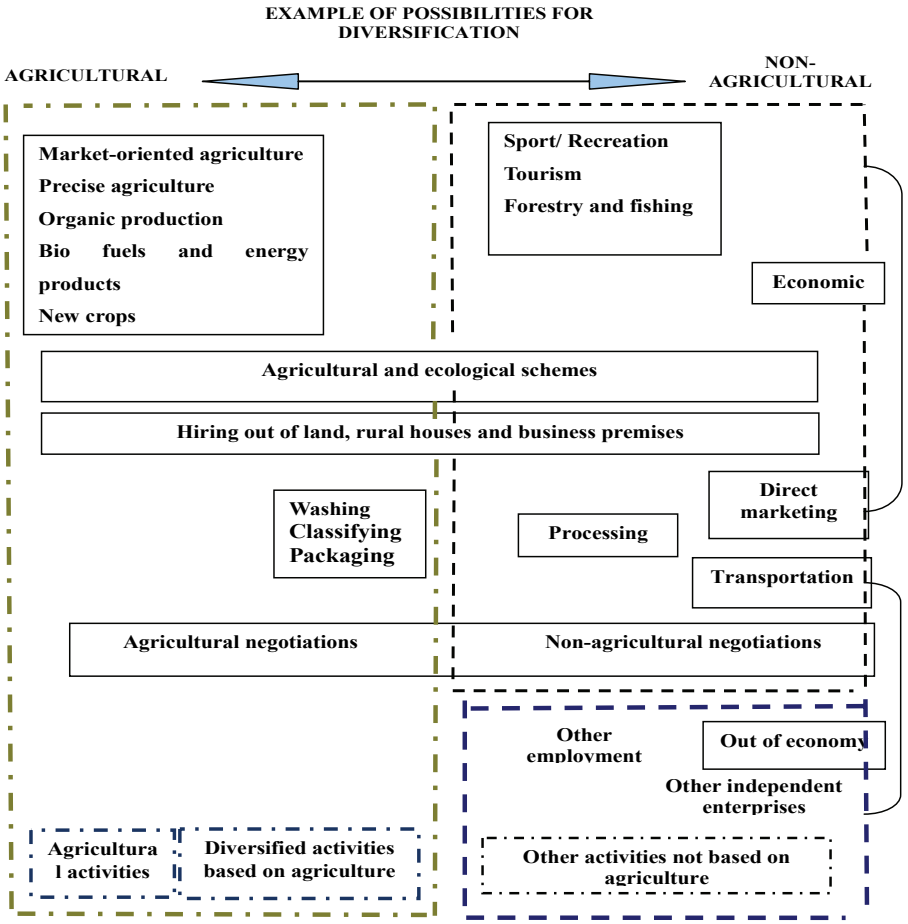

Figure no. 1 Diversification possibilities in agriculture

2. Diversification of agricultural products and activities

The diversification of the agricultural produce and activities is viewed as a strategy, which offers opportunities to the entrepreneurs, agricultural growers to receive extra incomes and to create additional employment, as a result of which their dependence on the production of subsidized agricultural goods is reduced. The entrepreneurial approach creates a great number and variety of ways for running of one and the same business, which makes the development of innovations in the field of agriculture a necessity, without which the development of the agricultural enterprise is deemed impossible.

Provided that it is properly managed, *diversification can serve as a buffer* of agricultural economy in a biological sense. For instance, the rotation of cultures in the systems of

annual crops could be used for curbing of weeds, pathogens and harmful insects. Besides, the cover crops could have a stabilizing effect on the agricultural ecological system by retaining the soil and nutrients in their place, by preserving the humidity of the soil with a mowed or dried non-mowed mulch[2] and by speeding up water penetration and the capacity of the soil to retain water.

Optimum variety could be achieved by *integration* of plant-growing and stock-breeding in the exploitation of farms. This was the common practice for centuries until the mid 70^{s} of 20th century, when the state policy in economy forces the farms to become specialized. The mixed activities connected with plant-growing and stock-breeding have several advantages. *Firstly*, the growing only of crops sown in rows on a more even ground together with the meadow or fodder crops on the steeper slopes will reduce the erosion of the soil. *Secondly*, the rotation of the meadow and fodder crops improves the quality of the soil and reduces erosion, while the manures from animals on their turn increase the soil fertility. *Thirdly*, stock-breeding could serve as a buffer to the negative effects of the periods with low rainfalls by the consumption of the residues of the crops, which in systems of the "plant-growing only" type could be considered as a disadvantage of the harvest. *Lastly*, feeding and marketing are flexible in the stock-breeding systems. This could help the agricultural growers to alleviate the unfavourable economic conditions during market and price fluctuations and together with the activities in plant-growing to carry out a more effective utilization of the agricultural labour.

The potential sources of ideas for diversification depend on the location, the natural and climatic characteristic features, the resources available, the adjacent infrastructure, the personal experience of the entrepreneurs, etc.

2.1 Diversification of products

The traditional agricultural products for mass consumption like grains, beef, grapes, etc. are the object of an increasing price competition. Since the 1st of January 2005, the direct payment to agricultural growers allows greater innovations in regard to the crops and animals which are kept. A great number of agricultural growers implement diversification of production by introduction of new plants and species, as well as the possible rediscovery of plants and animals traditionally kept in the past, which offer an interesting ratio between incomes and expenses.

Nowadays agriculture does not produce merely in order to provide food. A lot of agricultural products are raw materials which could be transformed into energy, plastic, paper and basics for the pharmaceutical industry. In comparison to the raw materials of petrochemical origin, a great number of the former have economic, as well as ecological advantages. Modern agriculture is strongly dependent on the non-renewable energy sources, particularly oil.The continual usage if these energy sources cannot be sustained infinitely, and yet, if we suddenly seize to rely on them, this will lead to an economic catastrophe. The abrupt breakdown of energy supply would be that disastrous as well. In

[2] *Mulch* – artificial cover of organic or other material over the surface of the soil, which has a physical, chemical and biological effect. Generally vegetable residues are used – straw, hay, stem and leaf remnants of maize, sunflower or other annual plants, fern, small parts and bark of forest species, manure, compost or non-organic synthetic materials.

the resistant agricultural systems the aim is to lessen the dependence on the non-renewable sources of energy and for the latter to be replaced with renewable sources or labour, but on an economically viable level.

For all crops and animals the agricultural manufacturers often have at their disposal a wide choice of alternatives in terms of what kind of them to keep, including the factors whether the production is intended for the market of fresh and processed goods, the shape, weight, colour, disease resistance, expiration date, difficulty at harvesting, consistency, taste, period of maturation, etc. Product diversification has been under way for several years as a result of genetic improvements and the continuing introduction of species, which are more suitable for the market requirements, as well as of new species which could be grown in slightly more fertile arable regions.

In the past, few sorts and hybrids of plants with relatively medium-late development cycle used to be grown, and the agricultural growers tried to place them on the market for fresh produce, in order to get the highest possible price. When the market could not take in the whole produce, the vegetables (tomatoes, potatoes, pepper, etc.) were used for processing since all sorts were more or less suitable for the market for fresh produce, as well as for industrial processing. Nowadays a great number of additional sorts are offered with considerable differences in their characteristics, and thus the decision of the agricultural grower as of what to grow requires a lot more consideration (mostly in terms of market opportunities).

In agriculture the decision on the choice of the main product can be restricted to a certain extent by the environment (soil/climate, etc.), but this is something which is common in the other sectors of industry as well (the remoteness from settlements would limit the viability of a sports centre, for example). It is on rare occasions that new products could not be introduced or that the existing products on the market could not be modified or repositioned, in order to increase their added value and to gain competition advantage on the market.

When our products are better than those of our competitors, or when the consumers realize this advantage, we have a real lead. Nevertheless, very few organizations find themselves in this enviable position, since a restricted number of products have unique character. There are obvious advantages in the sale of a new product in a given area, but this is often impossible. A good compromise could be the modification of an existing product in order to create something different, which could serve as an impetus for a new market. For example, earlier ripening apples or a possible introduction of new or “more exotic” crops. By shifting the production towards a different crop, you could succeed in increasing your incomes and profit.

There is a true challenge in finding a way to differentiate our product from almost the same goods, offered by your competitors. We should think how to take the best ideas of our competitors and how to improve them, in order to gain a competitive advantage on the market and to define the characteristic features which the consumers appreciate.

Farms with product diversification are usually more resistant in terms of economic and ecological point of view. Whereas mono-cultural agriculture has an advantage regarding the efficiency and the easy managing, the loss of harvest in a given year might lead the agricultural farm to bankruptcy and/or might seriously damage the stability of the community which depends on this harvest. By growing diversified crops, the agricultural growers spread the economic risk and become less susceptible to the abrupt fluctuations in

prices, connected with the changes in supply and demand. Lots of agricultural growers have responded to these changes with growing of organic crops or with the encouraging of healthier and more favourable opportunities for the environment. Other manufacturers have diversified their industrial activity (diversification of activities) in spheres like development of restaurants, wineries, shops, children or tourist centres or a possibility to "harvest your own" crops on the farm.

2.2 Diversification of activities

The diversification of activities in agriculture is a complicated and dynamic matter which every modern entrepreneur in the agricultural field has to face. One of the possibilities for diversification of activities in the agricultural business is the implementation and the establishment of a new production. The organization of a new production is a process which relies on the qualities of the agricultural entrepreneur and the features of the individual farm, which could have cultural, social or economic restrictions. The decisions and the choice of activities is determined by the quantity of resources, by the production experience and knowledge, by the preferences and traditions, by the cultural level of the entrepreneur. In this way the process of undertaking of alternative activities could be evaluated by the overall effect which it has on the production and the entrepreneurial values.

The conditions for realization of a new production are connected with the availability of resources for the organization and functioning of the activity. They encompass: the availability of capital, land, material and technical equipment, workforce, favourable climatic and natural conditions. The development of communications should be added to them as well – transport and communication links.

One of the possibilities for development of Bulgarian agriculture is the introduction and development of *unconventional productions*. A prerequisite for the occurrence and development of an unconditional activity is the necessity for the provision of an alternative and more profitable work in the agricultural farm. Some examples could be: *production of healthy food; herb growing; food trading; green-house gardening; public services and others*. The introduction and establishment of a new production in the form of unconventional agricultural activity could be developed in the small (small land) farms, as well as in the larger ones. The small-land farms depend mainly on additional and non-agricultural activity for increasing of the profits. The larger agricultural farms find opportunities for product increase of their business more easily.

The occurrence and development of the unconventional activities[3] increases the safety and guarantees better stability of the agricultural business. The possibility to work more intensely by organizing an alternative business broadens the horizon in front of the entrepreneurs and allows them to make the best decision at any time without being left desperate.

The hard transition of Bulgarian agriculture to market-oriented activities implies the seeking of different from the conventional decisions for development of the agricultural farms in Bulgaria. In most farms apart from the main traditional production activity there

[3] Unconventionality is used as a term, integrating the differences between the other activities and the agricultural production.

are also other – additional and/ or collateral activities. They are connected with the receipt of additional profits or satisfying the need for employment, different from the employment in the agricultural production. Some of these activities are based on the interests of the agricultural entrepreneur and occur as a "hobby" which gradually develops into business. Depending on the differences, the unconventional activities can be classified into several groups. (Figure no. 2)

Related to growing plants and breeding animals that are not typical for the country or are imported from other countries or regions	▪ Physalis (also called ground cherry or husk tomatoes), Aronia melanocarpa Elliot (aslo called Black Chokeberries); Hippophae (also called willow-leaved sea buckthorn); Feijoa sellowiana (also called pineapple guava ▪ ostriches; truffles
such as an interest or a hobby which has been turned into business activity	▪ Pottery, weaving, embroidering and other crafts; ▪ Cultivation of herbs or oil plants; ▪ Wild fruit gathering
which resulted from the opportunity to use available facilities or resources	Rural tourism; processing of agricultural waste materials or residues; primary production processing

Figure no. 2 Groups of non-traditional activities according to differences

The unconventional activities could be classified in accordance with their relationship with the agricultural production as a main farm employment. The classification includes the following groups of unconventional activities. (Figure no. 3)

First group	**Non-traditional activities developed on the basis of "connected" diversification** • milling • wine production • furriery
Second group	**Non-traditional activities developed on the basis of "non-connected" diversification** • herb growing • development of crafts
Third group	**Non-traditional activities developed on the basis of the multifold aspect of farming** • rural tourism

Figure no. 3 Classification of non-traditional activities according to their relation with agricultural production

The many-sidedness is characteristic for the farm economies, where together with the main agricultural activity other activities with the same weight and emphasis, equal to the agricultural production, are developed. The change in the percentage between the activities in different seasons or years is characteristic for the many-sidedness. It offers a possibility for flexibility when managing the activities by change of priorities. Typical representatives of this group are the alternative forms of tourism (rural tourism, ecological tourism).

It is possible that as a result of the development of the farm economy and at the change of its priorities, the unconventional activities will comprise a main part of the activity (measured as time employment and profits) of the farm members. In this context the unconventional activities should be seen as *an instrument for continuation of the life cycle of the farm economy.*

A basis for the development of the unconventional activities are the rural areas, and in a more specific plan – the private family agricultural farm. The tendencies for the decrease in employment in the areas with mainly agricultural production are characteristic for Bulgaria, and the economic situation of the country gives them a specific character. The creation of alternative employment, diversification of the economic activities within the framework of the separate farm unit, contributes to the overcoming of these problems and to the improvement of living conditions by means of additional work and profits.

The non-traditional activities are characteristic both for *territorial communities with agriculture as a main source of income and for ones with non-agricultural activities as a main source of income.* Territorial communities of the first type are: *production of healthy foods; growing herbs; trade with foods and industrial goods; organizing of public services and park horticulture.* The second type of territorial communities where there are prerequisites for non-traditional activities are mainly mountainous and border regions where agriculture is ineffective because of the specifics of the region. Many of the villages in mountainous and semi-mountainous regions were in the past craft centers and certain crafts were practiced there: carpet industry in Chiprovtsi and Kotel, furriery in Troyan region, woodcarving in Tryavna and smith craft in Samokov region, etc. A prevailing part of the mayors of towns and villages already see in crafts a prospect for additional or alternative employment of the population of their villages – in about 55% the problem of going back to crafts is in the foreground as an administrative issue.

Reasons for the emergence and development of non-traditional activities in rural areas

- Use of the available professional potential;
- Pursuit of survival of businesses in an indefinite environment;
- Emergence of new values in consumers;
- Seasonal employment in agriculture;
- Tendency to experiment and risk;
- Looking for new challenges.

It is well-known that appropriate policy must be carried out for maintaining the vitality of rural communities as regards farming as well as all aspects of rural life. The aim is to create an integrated and strong rural economy capable of self-supporting the rural population. This

concerns not only the financial aspects of that issue but also all others, like access to social and cultural life and natural environment.

The reasons for the creation and development of a new production in agriculture are brought to:

- pursuit of survival of businesses in an indefinite environment;
- use of the available professional potential;
- emergence of new values in consumers;
- seasonal employment in agriculture;
- looking for new challenges;
- tendency to experiment and risk.

The choice of one or another innovative production has different effect on agricultural farms.

The introduction of a modern *new technology* in production must comply with the latest perspective trends in the sphere of agriculture and with the opportunities for their constant improvement and current updating.

The modern conditions for the development of agriculture in Bulgaria mark the beginning of the transition from intensive agriculture to a production providing environment preservation and reproduction as well as a production of goods safe for people and animals. These aims can be achieved by applying the new *ecological technologies* and presuppose the implementation of the following important activities:

- Choosing vegetative species and varieties for alternative agriculture, choosing types and breeds of animals bearing in mind production expedience, agro-climatic conditions, market demand, nutritive regimes of crops and animals, specifics of fighting diseases, pests and weeds, etc.;
- Combining specific agro-climatic conditions in the region of biological requirements of the crops grown and animals kept through using the zoning principles;
- Applying environmentally-friendly systems for crop-rotations, growing interim crops, second crops, etc.;
- Using environmentally-friendly systems for fertilizing in compliance with the requirements of the crops grown and the condition of the soil with limiting or fully excluding the use of mineral fertilizers;.
- Limiting the use of pesticides;
- Optimizing soil tillage – minimal tilling, zero tillage, soil-protection tillage, etc.

Environmentally-friendly technologies in agricultural entrepreneurship are the most effective and the most accessible means of agro-ecosystems management. The agricultural practice in Bulgaria shows that there are excellent conditions in our country for creating mixed and biological farms (farms with scientifically grounded correlation between plant-growing and animal breeding), which are to keep the eco-systems in equilibrium. That can

be helped not only by the proper choice of crops and animals but also by the application of environmentally-friendly technologies for keeping the soil fertility and preserving the environment. The land of every agricultural farm must be used in such a way that the soils are preserved from degradation processes, and the environment – from pollution. The production in it must be directed not to obtaining maximal yields but to optimizing the system as a whole.

Sustainable agriculture, with a positive influence on the potential for agricultural production of the agrarian enterprise is based on traditional and modern technologies which have proved their strengths, covering the following activities: crop-rotations, soil tillage, fighting weeds, diseases and pests, fertilization, etc.

The concept of multifunctionality and sustainability of agriculture is within the range of foreign and Bulgarian researchers who are looking for differences and opportunities for the contributions of multifunctionality to the sustainable development of the agrarian sector.

The *multifunctional agriculture* emerged as a concept in the last decade of the 20th century when society was more and more interested in the quality of life and particularly in the quality of foodstuffs and environment.

The non-traditional activities are characterized with the entrepreneur's different motivation unlike agro-business, for example, where the main aim and motivation is profit. The development of craftsmanship, herbal industry, as additional activities for agro-business, as well as growing plants and keeping animals non-traditional for the country is a result of the many-sidedness of the agrarian producer's interests. We can generalize that the motivation for a non-traditional activity is not of an economic but rather of a social-psychological character.

The non-traditional activities are a variety of activities, which do not have specialized and constantly active markets (with the exception of rural tourism). They develop on an intuitive basis without any planning and determining long-term goals. The organization of non-traditional activities is a process which depends on the agrarian entrepreneur's qualities and the characteristics of the individual farm which may have cultural, social or economic restrictions.

The decision and choice of activities in individual farms is determined by the quantity of resources and by the family's cultural level. In this sense the process of undertaking alternative activities can be assessed with the general impact which it has on production and on family's values.

Although every non-traditional activity has its characteristics and specifics they can be inter-dependent under certain conditions. For example, the presence of rural tourism in the region supposes development of crafts, making souvenirs, weaving, knitting, growing flowers, etc. There is a reverse dependence, too, because the improvement of infrastructure and the presence of crafts will make it an attractive region for tourists.

It is well-known that carrying out an appropriate policy is necessary for maintaining the vitality of rural communities as regards not only farming but all aspects of rural life, too. The aim is to create an integrated and healthy rural economy capable of self-supporting the rural population. This concerns not only the financial aspects of this issue but also all others, like access to social and cultural life and natural environment.

The diversification of economies in rural areas with the *help of the Local Initiative Groups (LIG)* is carried out through purposeful support in certain areas: creating small and medium-sized enterprises; alternative agricultural activities; rural tourism, agro-tourism, local crafts, etc.

The LIG are a major mediator between local communities and the management and application of the Programme for Development of Rural Areas. Their main aim is to create opportunities for a closer access to investments for agricultural producers, entrepreneurs, non-governmental organizations and community centers for encouraging and diversifying employment, preserving the cultural heritage and identity of rural regions.

The idea of *diversification of agriculture beyond agriculture itself* with the aim to increase rural households' incomes has a history of over a century.

Regardless of the reasons for employment diversification the number of agricultural households employed part-time in agriculture is increasing, their owners and members of households developing various non-farming activities. In such cases their households are often defined as ones whose owners "combine farming and non-farming employment or incomes regardless of their origin or disposal".

The increasing specialization of production and the lack of effective marketing have exposed lots of farms to a significant risk of their business from the increasing competition, the reduction of prices or unforeseen circumstances like diseases or drought.

Many agricultural farms remain related to agriculture and turn to: preparing and retailing of foodstuffs; processing of agricultural products (cheese, juices, jams, etc.); importing foodstuffs; wine tourism; fishery, etc.

More and more agricultural companies develop activities, which are obviously not so closely related to agriculture – entertaining guests, accommodation, organized trips in the countryside, conferences, training courses, and wedding receptions, social and cultural activities, etc. Practice has shown that diversification beyond agriculture is a winning formula for many agricultural producers, which has a favorable impact on the development of rural regions, too.

Tourism as a diversification element in rural micro economy. Even a quick glance at the situation of rural areas in Bulgaria and Rumania shows a very important national and regional feature – a high degree of variety as a whole. A significant part of rural territories can be defined as transitional (mainly as regards nature) and marginal, mostly in pure ethnological sense.

The variety itself, mainly of natural resources, suggests the necessity of an adequate development of various economic forms. Practically this means that diversification in many cases has its natural predetermination. For more clarity and systematization, variety should be viewed in the following order – non-animated nature; biodiversity (flora and fauna); landscape and ethnographic variety, etc.

In this logical order, from the rich and various natural facts one can get to the opportunities for using the valuable cultural and historic heritage by developing various forms of alternative tourism, which from the point of view of sustainability, looks extremely suitable as economic orientation.

There are illustrative examples of positive influence of tourism in rural areas in many European countries – France, Italy and Hungary. It can be said that there are such examples in Bulgaria, too – Trigrad, Yagodina, Mogilitsa in the Rhodopes; Emen and Krushuna – on the border of the Pre-Balkan and the Danube Valley and many others.

In relation to the clear tendencies for a gradual increase of the share of organic or biological and ecological agriculture there is an increase in chances for forming a local type of markets "in situ", i.e. the client/customer comes personally. In this respect along with the well-known by-road trade, there are also positive examples for direct (in towns and villages themselves) and indirect (subsequently) consumption of local produce by the visiting tourists. Practice has shown convincingly enough the dynamic and catalyzing role of tourism for the complex integrated development of rural regions. The direct and reverse connections: "tourism – others, non-tourist activities" lead to a peculiar often sought multiplication effect. In the consumer "formula" of classical rural tourism besides informative-visual aspects can also be included: local foodstuffs – eggs, vegetables, honey, etc., local drinks – juices, syrups, herbal teas, etc., local crafts production – souvenirs, wrapping of natural origin (baskets of osier, willow, hazel bush, etc).

Conclusions

The European Union stimulates productions and activities directed to: improving the safety of foods and hygiene; diversifying rural economy; agro-ecological measures and transition to biological agriculture. The use of European funding depends on the initiative of entrepreneurs and local initiative groups. The decision for change is accompanied by knowing the advantages and possibilities for change and innovation and risk evaluation.

The results from the survey carried out give us reasons to make the following conclusions:

First: Due to the branch specific characteristics, the investment risk in the agro-sector is significant. It is borne by both the investor and the suppliers and funding institutions. This calls for its differentiation among all participants in the investment or in the investment portfolio;

Second: The motivation for diversification is based on the principle that when a certain activity has low proceeds, other activities could be profitable;

Third: A prerequisite for emergence and development of a non-traditional activity is the necessity of providing an alternative and more profitable work in agriculture;

Fourth: The local initiative groups are a main mediator between the local communities and the application of the Programme for Development of Rural Regions;

Fifth: The alternative forms of tourism are an effective diversification element in rural micro economy.

The diversification of the agricultural product and of the activities is accepted as a strategy which offers opportunities to the entrepreneurs to receive additional incomes, as a result of which their dependence on production of subsidized agricultural goods is decreased. The diversification can be used as a buffer of agriculture in a biological sense. The questionnaire survey that has been carried out indicates that the farms with product diversification are usually more sustainable from an economic and ecological point of view.

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